

Message Text

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TAGS: EFIN, GW

SUBJECT: DM 154 BILLION FEDERAL DRAFT BUDGET FOR 1975

INTRODUCED INTO THE BUNDESTAG

REF: A) BONN 10751; B) A-352; C) A-383

1. THE 1975 DRAFT BUDGET OF THE FEDERAL GOVERNMENT, PASSED BY THE CABINET ON JULY 5 (SEE REF. A), WAS INTRODUCED INTO THE BUNDESTAG ON SEPTEMBER 18 BY FINANCE MINISTER APEL. THE DRAFT AS IT NOW STANDS PROVIDES FOR EXPENDITURES OF DM 154 BILLION, REVENUES OF DM 137.8 BILLION, AND A NET DEFICIT OF DM 16.2 BILLION TO BE FINANCED BY NET BORROWING OF DM 15.6 BILLION AND SEIGN- IORAGE OF DM 0.6 BILLION.

2. THE CURTAILMENT OF THE ORIGINAL REVENUE ESTIMATES (SEE REF. A) BY DM 1 BILLION AND THE CORRESPONDING INCREASE IN NET BORROWING REFLECTS AN ANTICIPATED ADDITIONAL LOSS IN REVENUES DUE TO THE COMPROMISE
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VERSION OF THE PERSONAL INCOME TAX REFORM PASSED BY

BOTH HOUSES IN LATE JULY (SEE REF. C). THIS REFORM IS NOW ESTIMATED TO COST THE FEDERAL GOVERNMENT A TOTAL OF ABOUT DM 12.8 BILLION IN 1975. SOME DM 5.7 BILLION OF THE LOSS IS TO BE RECOVERED THROUGH AN INCREASE OF THE FEDERAL GOVERNMENT'S SHARE IN TVA TAX RECEIPTS BY 9.5 PERCENTAGE POINTS. THIS AMOUNT HAS BEEN INCLUDED IN THE ORIGINAL AS WELL AS IN THE REVISED TAX ESTIMATE FOR 1975, EVEN THOUGH THE CONSENT OF THE STATES IS STILL PENDING, THEREBY ADDING TO THE USUAL UNCERTAINTY INHERENT IN REVENUE FORECASTING.

3. PERCENTAGE COMPARISONS IN POTENTIAL GROWTH OF THE FEDERAL BUDGET IN 1975, RANGING FROM A 8.7 PERCENT TO 16.3 PERCENT (DEPENDING ON THE CONCEPT USED), ARE CONTAINED IN REF. C. THE ANTICIPATED DEFICIT OF DM 16.2 BILLION (OR DM 18.7 BILLION IF THE DM 2.5 BILLION NON-CASH PAYMENT TO THE SOCIAL SECURITY SYSTEM IS INCLUDED -- SEE REF. B), WOULD AMOUNT TO ABOUT 1.5 - 1.7 PERCENT OF THE ANTICIPATED 1975 GNP. A RATIO OF 1.5 PERCENT WAS REACHED ONCE BEFORE, I.E., IN 1967 WHEN GOVERNMENT SPENDING WAS STEPPED UP TO OVERCOME A SLUMP.

4. DURING THE TRADITIONAL BUDGET SPEECH IN THE BUNDESTAG ON SEPTEMBER 18, FINANCE MINISTER APEL ADMITTED THAT BORROWING OF THE ENVISAGED MAGNITUDE SHOULD NOT BE BELITTLED. HOWEVER, HE ADDED, IT SHOULD NOT BE DRAMATIZED EITHER, POINTING TO THE VERY LOW LEVEL OF THE FEDERAL DEBT. IN HIS VIEW, THE CAPITAL MARKET WILL BE ABLE TO STAND THE TAPPING SINCE RISING DISPOSABLE INCOME AND SUBSIDING INFLATIONARY PRESSURES WILL STIMULATE SAVINGS.

5. APEL CHARACTERIZED THE DRAFT AS AN ECONOMY BUDGET WHICH ADHERES TO THE STABILITY-ORIENTED POLICIES PURSUED BY THE GOVERNMENT. HE REQUESTED THE STATES AND THE MUNICIPALITIES TO FOLLOW THE FEDERAL GOVERNMENT'S EXAMPLE, SIMULTANEOUSLY REITERATING THE GOVERNMENT'S EARLIER PLEAS FOR WAGE AND PRICE RESTRAINTS.

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